

# RatingsDirect®

---

## Summary:

# Seattle; Solid Waste/Resource Recovery

### Primary Credit Analyst:

James M Breeding, Dallas (1) 214-871-1407; james.breeding@standardandpoors.com

### Secondary Contact:

Paul J Dyson, San Francisco (1) 415-371-5079; paul.dyson@standardandpoors.com

## Table Of Contents

---

Rationale

Outlook

Related Criteria And Research

## Summary:

# Seattle; Solid Waste/Resource Recovery

### Credit Profile

US\$34.19 mil solid waste imp and rfdg rev bnds ser 2015 due 05/01/2040

*Long Term Rating*

AA/Stable

New

Seattle Solid Wste rev & Rfgd bnds

*Long Term Rating*

AA/Stable

Outlook Revised

#### Seattle solid waste

*Unenhanced Rating*

AA(SPUR)/Stable

Outlook Revised

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services has revised its outlook to stable from negative and affirmed its 'AA' long-term rating on Seattle's existing solid-waste revenue bonds. At the same time, Standard & Poor's assigned its 'AA' long-term rating to the city's series 2015 solid-waste improvement revenue bonds. The outlook revision reflects current and projected financial results that indicate a continuance of strong coverage and adequate liquidity levels. Previously, the negative outlook reflected our view of the city's planned drawdown in liquidity of the solid-waste system to pay for capital projects. Fiscal 2014 results, coupled with revised projections, indicate that cash will remain closer to current levels.

The rating is based on our view of the solid-waste system's:

- Stable customer base that lies at the economic center of the Puget Sound region;
- Relatively low competition, with residential customers required to have solid-waste accounts with the city;
- Regular rate increases in recent years, which the city plans to continue; and
- Strong debt service coverage.

These strengths are partially offset by our view of the system's:

- Higher-than-historical capital needs as the city replaces its two transfer stations and redevelops an old landfill site; and
- Relatively low fund liquidity, with a projected decline in liquidity as cash is used to cover a portion of the capital program--though this is partially offset by access to the city's large pooled cash accounts.

The 2015 bonds are being issued to provide about \$34.2 million in capital funding for Seattle's solid-waste system. The current capital improvement program largely focuses on rebuilding the city's two transfer stations and redeveloping an old landfill. The bonds are secured by a pledge of net revenue of the city's solid-waste system, which is on parity with the system's series 2007, 2011, and 2014 bonds. The 2015 bonds also have a reserve, funded at maximum annual debt service (MADS). A rate covenant requires the system to generate at least 1.25x debt service coverage. The additional bonds test requires that historical or projected net revenue provide at least 1.25x coverage of existing and proposed

debt. Following this issuance, the system will support about \$201.1 million of solid-waste revenue bonds outstanding.

Seattle is the largest city in the Pacific Northwest and the economic center of the Puget Sound regional economy. The city estimates it has a population of about 640,000. Its median household effective buying income is strong, in our view, at 121% of the national median.

The solid-waste system is operated by Seattle Public Utilities, a department of the city. The system provides solid-waste collection and disposal to residents and businesses within the city. Collection services are provided by two franchise collectors -- Waste Management Inc. and Recology/Cleanscapes Inc. -- under contracts with the city. The city owns and operates two transfer stations that receive refuse from the contract haulers and self-haulers. The city contracts with Waste Management to haul refuse by rail and dispose of waste at Waste Management's landfill in Arlington, Ore. The city does not own its own active landfill.

We continue to view the system's exposure to competition and revenue volatility as relatively low. Seattle residents are required by city ordinance to subscribe to the city's garbage collection services. For commercial refuse collection, the city faces little competition from independent haulers, according to management. The system's revenues are largely generated from rate revenue rather than tonnage-based tipping fees. In our view, this leads to lower revenue volatility.

The city has raised rates annually in recent years, with a large 27% increase in 2009 to offset costs associated with new collections contracts. Currently, a residential customer with a 32-gallon refuse can and 96-gallon yard waste can would pay about \$42 per month, which we view as moderate. Management has adopted a 5.9% increase for 2015 and a 3.4% increase for 2016. Residential customers are charged for solid-waste service on the same bill as water and sewer services. The city can shut off water for non-payment of any part of the bill, leading to low residential delinquencies. Commercial customer bills are collected by the contract haulers and remitted to the city. According to management, Seattle has not experienced significant delinquencies with commercial accounts.

The system has had strong debt service coverage in recent years, although we believe future rate increases will likely be needed to maintain strong coverage of increasing debt service. Operating revenue totaled \$157.5 million in 2014 after depositing \$10.5 million to the rate stabilization fund (RSF). Net of RSF deposits, total operating revenues have increased by about 11% since 2010. During that same period, operating expenses excluding depreciation were up 6.0%, totaling \$146.2 million in 2014. These expenses include \$17.7 million paid as taxes to the city. Under Seattle's charter, taxes paid to the general fund are subordinate to debt service. Net revenues before taxes and after the deposit to the RSF provided debt service coverage of more than 3.7x in 2013 and more than 3.3x in 2014. The decrease was due to the rise in debt service to \$10.5 million from \$9.0 million. Without the RSF deposit, debt service coverage would have been more than 4.0x in 2013 and 2014. When deducting the RSF deposit from revenues and including taxes as an operating expense, Standard & Poor's calculates debt service coverage of approximately 1.9x in 2013 and 1.6x in 2014.

With this issue and a future planned issuance, the annual debt service obligation will increase to \$15.7 million in 2016 from \$10.5 million in 2014. Under the city's projections, debt service coverage incorporating deposits and withdrawals from the RSF stays above 2.8x through 2016 and coverage after deducting for taxes stays at or above 1.5x. Under its financial policies, the city targets coverage when including taxes as expenses of at least 1.5x. Ignoring RSF activity,

coverage without the tax stays above 2.5x and coverage after deducting taxes stays above 1.3x. We view the projections as reasonable, with growing revenue based on planned rate increases and increasing operating expenses.

The system's liquidity position remains adequate in our view, although it is below average for the 'AA' rating level. Liquidity is also projected to weaken during the next three years due to cash funding of a portion of the system's capital improvement plan, though not as much as originally planned. As of Dec. 31, 2014, unrestricted cash and investments totaled \$32.4 million based on the audited financial statement, representing about 90 days of cash on hand, not including city taxes in expenses. Under the city's projections, cash levels decline to about \$18.7 million, or about 45 days, by 2016. In our view, the system's currently only-adequate liquidity is somewhat mitigated by its access to Seattle's \$1.6 billion pooled investments if needed. Under the city's municipal code, the finance director is permitted to make interfund loans for up to 90 days. Longer-term loans require city council approval.

Through 2020, management is projecting to spend about \$136.8 million for the capital program. The largest elements of the capital program are the replacement of Seattle's two transfer stations (one of which is already complete) and the redevelopment of a historical landfill site. The transfer stations are the system's largest capital assets. Following this issuance, management projects the need for another \$22.5 million of bonds to complete the capital plan.

## Outlook

The stable outlook reflects our expectation for maintenance of high coverage and adequate liquidity. Planned rate increases, coupled with the completion of the major capital projects, should allow management to produce financial results in line with recent performance. There is little potential for upward rating movement; however, should coverage fall and/or fund liquidity decline below projected balances to a level we consider low, we could lower the rating.

## Related Criteria And Research

### Related Criteria

USPF Criteria: Solid Waste System Financings, June 15, 2007

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).